

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7721

BILL NUMBER: SB 561

NOTE PREPARED: Apr 9, 2007

BILL AMENDED: Apr 9, 2007

SUBJECT: Public Safety Deferred Retirement Option Plan and Public Safety Matters.

FIRST AUTHOR: Sen. Mishler

FIRST SPONSOR: Rep. Wolkins

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) This bill:

(1) Removes Prior Service Credit Limit 1977 Fund - This part removes a provision that limits credit for prior service to allow a firefighter to accrue 20 years of service credit in the 1977 Police Officers' and Firefighters' Pension and Disability Fund;

(2) DROP Disability 1977 Fund - This part permits a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund who retires because of a disability more than 12 months after the date the member enters the Deferred Retirement Option Plan (DROP) to choose whether to receive a retirement benefit calculated as if the member: (A) had never entered the DROP; or (B) exited the DROP on the date the member retires because of the disability;

(3) Firefighter Certification Requirements - This part allows a person who fulfills certain firefighter certification requirements to be in compliance with minimum basic firefighter training requirements;

(4) Ordinance Adoption Computer Facilities District - This part allows any county to adopt an ordinance creating a public safety communications systems and Computer Facilities District;

(5) Property Tax Levy Prohibition - This part prohibits a county from imposing an ad valorem property tax levy to fund the operation or implementation of the district; and

(6) Re-submission of the DROP Application - This part authorizes a member of the 1925 Police Pension Fund, the 1937 Firefighters' Pension Fund, the 1953 Police Pension Fund, or the 1977 Police Officers' and Firefighters' Pension and Disability Fund to resubmit, before July 1, 2007, a disapproved election to enter

a DROP and to have the election approved so that the dates the member enters and exits the DROP are the dates selected by the member when the election was initially submitted.

(7) Extends until January 1, 2011, additional distributions from the Pension Relief Fund - This part ensures that at least 50% of the pension liability of each unit of local government is paid from the Pension Relief Fund.

(8) Purchase of Service Public Employees' Retirement Fund (PERF) This part provides that a member of PERF, previously employed by a state quasi-governmental entity not affiliated with PERF that is absorbed by a PERF-affiliated entity, may purchase service credit at the full actuarial cost.

Effective Date: Upon Passage; July 1, 2007.

Explanation of State Expenditures: (Revised) *(7) Extends until January 1, 2011, additional distributions from the Pension Relief Fund* - Extending until January 1, 2011, additional distributions from the Pension Relief Fund will result in additional Pension Relief Fund distributions of approximately \$9.4 M in CY 2009 (from \$113.0 M to \$122.4 M) and \$11.2 M in CY 2010 (from \$113.9 M to \$125.1 M).

The present value of these additional Pension Relief Fund distributions as of January 1, 2007, at 6% is about \$17.2 M.

The total Pension Relief Fund distribution for 2006 was \$129,363,434.

(Revised) *(8) Purchase of Service - Background Information for Purchase of Service Credit:* The bill provides that the purchase of service credits must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member may wish to purchase service credit and the potential impact to the fund are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to PERF. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to PERF.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing

a real gain to the member and an impact to PERF.

Explanation of State Revenues:

Explanation of Local Expenditures: (1) *Prior Service Credit Limit for the 1977 Fund:* Currently, this provision applies to one entity, the town of Fishers. This will increase costs for the town by an indeterminable amount. Currently, employing units contribute 21% of covered payroll, while the employee contributes 6% of the salary of a first class patrolman or firefighter. An employer may pay part or all of a member's contribution.

(2) *DROP Disability 1977 Fund:* For the 1977 Police Officers' and Firefighters' Pension and Disability Fund, DROP members will continue to be funded as though they are active members. In other words, members in the DROP continue to contribute 6% of the first class salary (until they have 32 years of service) and the employer continues to contribute 21% of the first class salary. These contributions continue while the members are in the DROP.

Since the DROP was designed to be actuarially neutral and this legislation does not otherwise increase benefits, this bill would not have any fiscal impact.

(3) *Firefighter Certification Requirements:* This part permits alternatives to firefighter certification. It is unclear, what, if any, fiscal impact these provisions will have.

(6) *Re-submission of the DROP Application* The fiscal impact, if any, from this bill is expected to be minimal. Fewer than ten people on a statewide basis are expected to be affected by this proposal.

Explanation of Local Revenues: (5) *Communications Districts:* Under current law, only Marion County and Elkhart County may create a public safety communications systems and computer facilities district (district). This bill would permit any county to adopt an ordinance creating a district. Each district would encompass the unincorporated portion of the county plus any municipalities and townships that choose to join the district.

Currently, Marion County may fund the district from COIT revenues and may not impose a property tax rate in the district. Elkhart County is currently authorized to impose a tax rate of up to \$0.05 per \$100 AV. However, Elkhart County has not yet imposed this tax rate and instead funds the district from county resources.

Under this provision, the remaining 90 counties would not be permitted to impose a property tax rate to fund the districts. The current funding options for Elkhart and Marion Counties would not be affected. This provision would not affect property tax levies.

(7) See *Explanation of State Expenditures*.

State Agencies Affected: Public Employees' Retirement Fund as administrators of the 1977 Police Officers' and Firefighters' Pension and Disability Fund; Public Employees' Retirement Fund as administrators of the Pension Relief Fund.

Local Agencies Affected: Those municipalities with members in the 1977 Police Officers' and Firefighters' Pension and Disability Fund and the Old Funds; Recipients of Pension Relief Fund distributions.

Information Sources: Doug Todd of McCready & Keane, Inc., actuaries for PERF and the 1977 Police Officers' and Firefighters' Pension and Disability Fund, 317- 576-1508; Mr. Tom Hanify, Indiana Professional Firefighters' Union, 317-630-1840; Mr. Leo Blackwell, Indiana Fraternal Order of Police, 317-634-4356.

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DEFINITIONS:

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.